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Apple profit surges on Mac and iPod sales

Sells 270,000 iPhones in less than two days of quarter; shares jump

By Rex Crum, MarketWatch

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SAN FRANCISCO (MarketWatch) — Apple Inc. shares climbed more than 6% Thursday on upbeat reaction to the company reporting a 73% increase in its fiscal third-quarter profit due to growing sales of its flagship Macintosh computers and iPods.

Additionally, Apple reported a strong initial weekend for its highly anticipated iPhone, with shipments of 270,000 units in less than two days of sales.

Apple (AAPL: 122.21, +5.16, +4.43%) rose \$8.74 a share to close at \$146 after saying late Wednesday that it earned \$818 million, or 92 cents a share for the quarter ended June 30, compared with \$472 million, or 54 cents, in the year-earlier period.

Revenue advanced 24% to \$5.41 billion from \$4.37 billion. Gross margins widened to 36.9% from 30.3%.

The results topped the estimates of analysts surveyed by Thomson Financial, who expected Apple to earn 72 cents a share on \$5.29 billion in sales.

"[The] major business lines were strong, and we see multiple catalysts that will drive growth in the second half of 2007," Deutsche Bank analyst Chris Whitmore said. He expects new iPods and Mac computers to be released later this year.

Whitmore also raised his price target on Apple's stock to \$200 a share from \$140 a share and left his buy rating unchanged.

Much of the credit for Apple's results was given to its resurgent line of Macintosh PCs.

Apple sold 1.76 million Macintosh computers during the quarter, a record for Mac sales in one quarter and up 33% from the year-earlier period. Mac sales included 1.13 million MacBook and MacBook Pro notebook PCs and 634,000 desktop Macs.



Analyst Andy Hargreaves of Pacific Crest Securities said several factors, such as "back-to-school sales, expanded distribution and a likely refresh of the iMac product lineup," should help Mac sales rise about 30% in the current quarter.

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Hargreaves rates Apple's stock buy; he raised his price target to \$175 a share from \$130.

iPod sales climbed 21% from a year ago to 9.8 million units.

"The quarter was really strong," said Shaw Wu, an analyst with American Technology Research. "Mac sales, in particular, were better than expected, and the iPod also had a strong quarter." Wu holds a buy rating and \$165 share-price target on Apple.

Calling in profit

Additionally, Apple said it sold 270,000 iPhones during the one-and-a-half days the devices were on sale during the quarter.



Apple iPhone

In a statement, Chief Executive Steve Jobs said the company expects to sell 1 million iPhones by the end of its fiscal fourth quarter. The company is also sticking by its previous target of selling 10 million iPhones in 2008, the first full year for which the iPhone will be on sale.

Romeo Dator, who owns Apple stock as part of U.S. Global Investors All-American Equity Fund, said Apple's iPhone shipments were, "OK, but not as good as [some] more bullish expectations."

Still, Dator said "it was a very good report overall. We still expect new products before [the] year-end to help drive sales over the next two quarters."

"By any normal company's standards, sales of the iPhone in its first two days were brisk," said Charles Smulders, PC analyst with Gartner Inc. "If there is any sense of disappointment, then over-inflated expectations driven by Apple's marketing machine are to blame."

Some Wall Street analysts estimated that Apple might have sold as many as 500,000 iPhones during the brief time the devices were on sale in the quarter. Thomas Weisel Partners analyst Kevin Hunt went so far as to forecast iPhone sales of 700,000 units.

Hunt called Apple's iPhone sales "weak," and was also disappointed that the company's target for sales of 1 million iPhones by the end of the current quarter fell below his forecast of 1.5 million units. Hunt holds a market-weight rating on Apple stock.

On a conference call to discuss Apple's results, Chief Financial Officer Peter Oppenheimer reiterated Apple's goal of selling 10 million iPhones in 2008.

Oppenheimer also said Apple would name its initial European wireless-network

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partners for the iPhone later this quarter, and would begin selling the iPhone in Europe during the fourth quarter.

"Our primary focus is not on initial [iPhone] sales," said Tim Cook, Apple's chief operating officer. "We're focused on building a third great business for Apple over the long term alongside our Mac and iPod businesses. The rewards, we believe, are huge for Apple."

For its fiscal fourth quarter, Apple gave a typically conservative outlook, estimating it will earn 65 cents a share on \$5.7 billion in sales. Analysts had previously forecast Apple to earn 83 cents a share on revenue of \$6.05 billion.

"The guidance was a little more conservative than usual, but Apple is always good at reining in expectations," Wu said. ■

Rex Crum is a reporter for MarketWatch in San Francisco.

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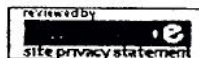
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Apple shares rise 6% as Mac, iPod and iPhone drive earnings - MarketWatch



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iPhone top selling cell phone in July



Apparently people like this thing called the iPhone...

Apple

Surprise: the [iPhone](#) is selling well. We all assumed it was doing well and was probably on pace to sell 1 million units in the U.S. by the end of September as [Apple](#) forecast.

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Now iSuppli is confirming that Apple's uberphone was the top selling phone in July, its first full month of sales. iSuppli said the iPhone accounted for 1.8 percent of all mobile handset sales in the U.S., putting it ahead of all smart phones and on par with the most popular and less powerful feature phone, the LG Chocolate.

The early figures have prompted iSuppli to reiterate its forecast of 4.5 million iPhones shipping in 2007, rising to more than 30 million units in 2011. iSupply did not release actual sales figures or August numbers but said the iPhone's performance was "unprecedented," and "remarkable," considering this was Apple's first month of cell phone sales.

"While iSuppli has not collected historical information on this topic, it's likely that the speed of the iPhone's rise to competitive dominance in its segment is unprecedented in the history of the mobile-handset market," said iSuppli.

iSuppli's survey of iPhone customers found that:

**Approximately 57 percent of iPhones bought in July were purchased by U.S. consumers 35 years of age or younger.*

**Most iPhone buyers were men in July, with 52 percent of purchasers being male and 48 percent female.*

**Nearly two-thirds, or 62 percent, of iPhone buyers in July had a four-college degree or more education.*

**One quarter of consumers who bought iPhones switched to AT&T service. AT&T is the exclusive provider of service for the iPhone.*

It's certain that for Apple to hit the sales numbers iSuppli is predicting, it will have to start selling the iPhone in Europe soon. It looks like that should be [announced sometime in the coming weeks..](#)

The biggest question is how will sales hold up over the long haul? After the initial run on iPhones, will it cross over to more mainstream users who will have a little harder time forking over the money? Only time will tell.

Posted By: [Ryan Kim \(Email\)](#) | September 04 2007 at 10:05 AM

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iSuppli In The News

[<< back to news listing](#)**iPhone Becomes Leading U.S. Smart Phone Model in July**

September 4, 2007

Apple Inc.'s iPhone outsold all smart phones in the United States during July, and equaled the sales of the most popular feature phone, according to iSuppli Corp. The iPhone accounted for 1.8 percent of all mobile-handset unit sales to U.S. consumers during July. Most iPhone purchasers in July were male, 35 years of age or younger and possessed a four-year college degree or more.

Strong early consumer uptake conforms with iSuppli's forecast of 4.5 million iPhones shipping in 2007, rising to more than 30 million units in 2011.

iPhone is already a success

Just one month after it debuted, Apple Inc.'s iPhone achieved sales that exceeded those of the top-selling smart phone and that equaled those of the most popular feature phone, according to iSuppli. iSuppli's U.S. Consumer Panel Survey revealed the two models of the iPhone now on the market outsold all smart phones in July, including the Blackberry series, the entire Palm portfolio, and any individual Motorola, Nokia, Samsung or other smart phone model from a branded service provider. The iPhone's U.S. sales in July were equal to those of the most popular feature phone, LG's Chocolate. iSuppli classifies the iPhone as a crossover phone, with attributes that put it in competition both with smart phones and with feature phones. While the iPhone has some features associated with smart phones, users cannot load third-party software onto the product, which is a key requirement to qualify for smart-phone status. iSuppli defines feature phones as handsets that have rich functionality.

July fireworks for Apple

This is a remarkable accomplishment for Apple, considering that July marked the first full month of sales for the iPhone. While iSuppli has not collected historical information on this topic, it's likely that the speed of the iPhone's rise to competitive dominance in its segment is unprecedented in the history of the mobile-handset market.

The two iPhone models on sale in July accounted for 1.8 percent of all mobile-handset unit sales to U.S. customers during the month.

While the speed of the iPhone's ascent to the top of the smart-phone and feature-phone charts is remarkable, it's equally amazing that Apple achieved this in the face of numerous, well-entrenched competitors.

iPhone demographics

iSuppli's U.S. Consumer Panel Survey also revealed other facts about American iPhone purchasers, including:

- Approximately 57 percent of iPhones bought in July were purchased by U.S. consumers 35 years of age or younger.
- Most iPhone buyers were men in July, with 52 percent of purchasers being male and 48 percent female.
- Nearly two-thirds, or 62 percent, of iPhone buyers in July had a four-college degree or more education.
- One quarter of consumers who bought iPhones switched to AT&T service. AT&T is the exclusive provider of service for the iPhone.

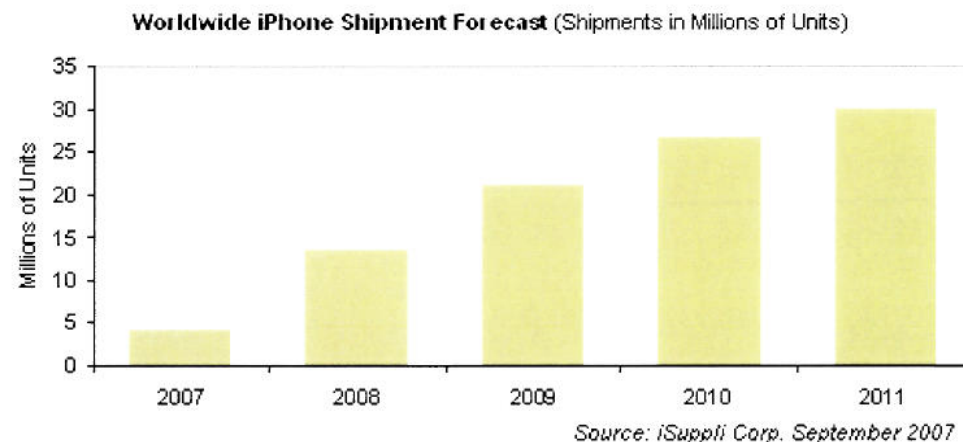
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The long-term outlook

Some of the iPhone's success in July can be attributed to pent-up demand following months of hype. Real proof of success will come in the coming months as demand patterns stabilize. Based on consumer demand, Apple's brand image, industry anticipation and iSuppli's estimates of volume shipments by manufacturers and the market segment, iSuppli is maintaining its projection that 4.5 million iPhones will ship in 2007, rising to more than 30 million units in 2011, as presented in the attached figure.



About iSuppli's U.S. Consumer Panel Survey

iSuppli's U.S. Consumer Panel Survey is conducted on-line monthly using a continually refreshed panel of more than 2 million participants in the United States. The samples are census-balanced and are validity-checked using iSuppli's proprietary databases and algorithms.

A range of who bought, what, where, how, and why information is gathered and analyzed on a variety of consumer electronics products.

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iPhone images

Apple Sells One Millionth iPhone

CUPERTINO, California—September 10, 2007—Apple® today announced it sold its one millionth iPhone™ yesterday, just 74 days after its introduction on June 29. iPhone combines three devices into one—a mobile phone, a widescreen iPod®, and the best mobile Internet device ever—all based on Apple's revolutionary multi-touch interface and pioneering software that allows users to control iPhone with just a tap, flick or pinch of their fingers.

"One million iPhones in 74 days—it took almost two years to achieve this milestone with iPod," said Steve Jobs, Apple's CEO. "We can't wait to get this revolutionary product into the hands of even more customers this holiday season."

Apple ignited the personal computer revolution in the 1970s with the Apple II and reinvented the personal computer in the 1980s with the Macintosh. Today, Apple continues to lead the industry in innovation with its award-winning computers, OS X operating system and iLife and professional applications. Apple is also spearheading the digital media revolution with its iPod portable music and video players and iTunes online store, and has entered the mobile phone market this year with its revolutionary iPhone.

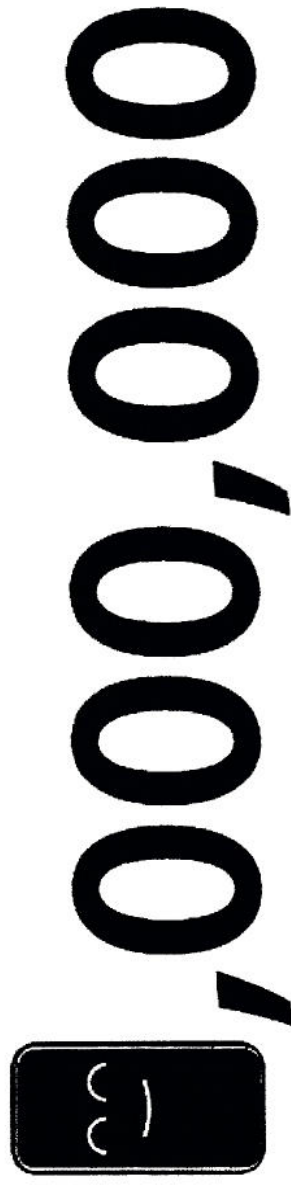
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1809
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digg it Seventy four days out from launch, Apple has sold 1 million iPhones—smack dab on target with recent analyst predictions that the iPhone would surpass the mil mark by Sept. 30. In a press release, Steve Jobs said that it took nearly two years to sell that many iPods. The big boss continued: "We can't wait to get this revolutionary product into the hands of even more customers this holiday season." Too bad it won't be that even more revolutionary iPhone that seems just around the corner. Critique aside, we